HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation
www.cmhc.ca

New Home Market

Single starts highest since 1987

CMHC is forecasting 850 single-detached housing starts for 2006, the highest number of single starts since 1987. The lagged effects of robust employment growth in 2005, continuing wage growth, and in-migration have played a role in the surge in single starts. Persistently low mortgage rates also deserve credit for the strong performance. We expect the pace will moderate in 2007 with single starts slipping to 750 units. (See Figure 1) Increased competition from existing housing and increased new home prices will contribute to modestly slower starts in 2007.

Given the elevated level of starts, Saskatoon is experiencing the highest level of single-detached units under construction in 19 years. The number of single-detached units under construction reached 495 units in July, 17 per cent higher than the previous year. Expect the monthly average number of units under construction to end the year at over 400 units.

The rate of absorption of single-detached units has been rising to meet the increased starts activity. The absorption trend stands at the historically high level of 64 units monthly, up from 56 units monthly at this time in 2005 and the highest absorption trend recorded since 1988. The supply of single-family homes (defined as including units under construction and units completed and unoccupied) is sufficient to last just over seven months, similar to last year at this time.

Average price of new housing units up almost eight per cent annually

Rising material and labour costs combined with higher land development costs, fees, and taxes will lead to an increase in average price of 10.1 per cent to $235,000 in 2006. Another factor contributing to the higher average price is a shift in the share of sales occurring above $200,000, thus skewing up the average price. The 10.1 per cent gain in absorbed prices this year will represent the highest rate of price growth since 1998 when the average price jumped almost 18 per cent.

Sales in the $200,000 to $224,999 price range are up by five percentage points this year while sales below $200,000 have experienced a decline in market share. We expect this shift to higher price ranges to moderate in 2007, however, as consumers react to higher prices by turning to the existing housing market or postpone their

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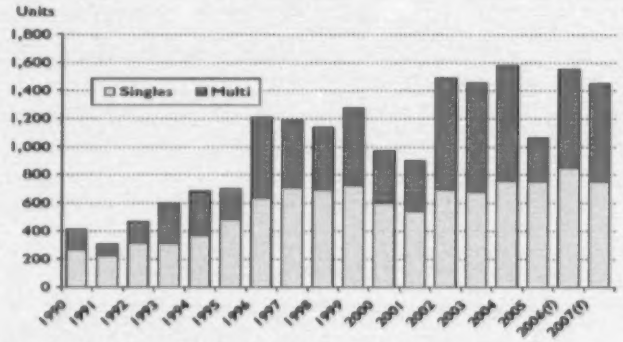
purchase altogether. Consequently, this will contribute to modestly weaker price growth in 2007, rising only 4.9 per cent to $246,500.

Year-to-date information for July indicated the average price per square foot (considering both land and building) for all types of single-family homes was $162.20 but there is wide variation between the various subdivisions. Hampton Village units had average prices of $148.32 per square foot while the homes in the Stonebridge division had average prices of $162.33 per square foot.

Figure 1
Total Housing Starts



Source: CMHC, CMHC Forecast

Condominium apartments dominate multi activity

After a 62 per cent drop in the building of multiples from 2004 to 2005, multi starts, which include semi-detached, row, and apartment units, have rebounded significantly and are forecast to reach 700 units in both 2006 and 2007 (see Figure 1). Most of these multiples are condominium tenure designed for the empty-nesters and seniors market, as they offer such features as elevators and underground parking. Moreover, they are considerably less expensive than the average single-detached home. Saskatoon has yet to record a single start for rental tenure this year, with few, if any, expected over the duration of the year and through 2007.

Notwithstanding a surge in condominium starts in early 2006, the supply of condominium units of various styles stands at just over 500 units, 12 per cent lower than last year at this time. At the current absorption trend of 25 units monthly, the supply of condominium apartment units is sufficient to last about 18 months. Absorptions have been brisk while inventories have nearly been cut in half since the start of the year, suggesting that developers will be bringing more of these units to the market in the near future.

Apartment condominiums most popular with seniors

Based on current data, almost 50 per cent of the apartment condominium absorptions have been in the $140,000 to $159,999 price range and 28 per cent have been absorbed at selling prices in the $160,000 to $179,999 range. The average price of apartment condominiums is almost $162,000, 31 per cent lower than the average single-detached unit. We expect the apartment condominium style of unit with features such as elevators, balconies and underground parking to dominate the condominium market in the forecast period.

Resale market

To establish a new record in 2006, plateau in 2007

In 2006, the Saskatoon resale market will establish a new record in total sales, breaking the previous record set in 1996. Total sales are expected to increase by 4.7 per cent this year and reach 3,400 total units. In 2007, although sales will not see a new record established, demand for existing homes will remain at high levels with 3,400 units expected to change hands. Similar to the new home market, demand for resale housing has been supported by rising weekly earnings and positive net-migration. Also contributing to the elevated level of sales has been the continued low mortgage rates and an increase in prices in the new home market relative to the resale market. Solid equity gains from the past few years are also providing owners an opportunity to upgrade their home to a more expensive unit.

The supply of listings has also made the resale market an appealing choice to potential buyers. By the end of 2006, 4,800 new listings will have been available. While this represents a slight dip of 2.2 per cent from 409 new listings monthly in 2005 to 400 in 2006, this level of listings is well above the five year average of 384 units. This modest decrease in supply in 2006 is partly a result of fewer people leaving Saskatoon. In 2007, look for a modest increase to 413 new listings monthly. In 2007, listings will increase as empty-nesters and seniors move into newly constructed condominiums and others take possession of their new single-detached units.

Active listings have seen a decline in 2006 as new listings have sold more quickly than the previous year. At the end of August 2006, seasonally-adjusted active listings were behind 10 per cent from one year ago. Given the seasonally-adjusted supply of active listings and seasonally-adjusted monthly sales, the current level of inventory in August 2006 was 2.6 months, down from 3 months one year ago. The average seasonally-adjusted listing period for sales of single-family detached units at the end of August 2006 was 36 days, down from 40 days at the end of August 2005. During the first eight months of 2006, the average resale unit took four fewer days to sell than in 2005.

Average resale price to increase to $158,000 in 2006

Average prices are expected to increase by 9.1 per cent from 2005 to 2006, the strongest price growth for one year since 2004 -2005. A less pronounced increase is forecast for 2007, with prices rising by 7.3 per cent to reach $169,500. The increase in price in 2006 will stem from a slight tightening in the resale market caused by the increase in demand for resale housing and a slight decline in both listings and inventory. In 2007, prices will continue to rise although at a slower pace largely due to the forecast increase in supply.

Cost of home ownership escalating in 2006 and 2007

CMHC has calculated the principal and interest payments on a mortgage loan financing the purchase of a home selling at the average resale price. The mortgage would bear interest at the forecasted five year term rates for 2006 and 2007. Our analysis determined that the monthly principal and interest would be about $967 in 2006, representing a 16 per cent jump from 2005. In 2007, corresponding payments will increase 5.5 per cent to approximately $1,020 monthly.

Rental market

Average vacancy rate inches up in 2006 but slips in 2007

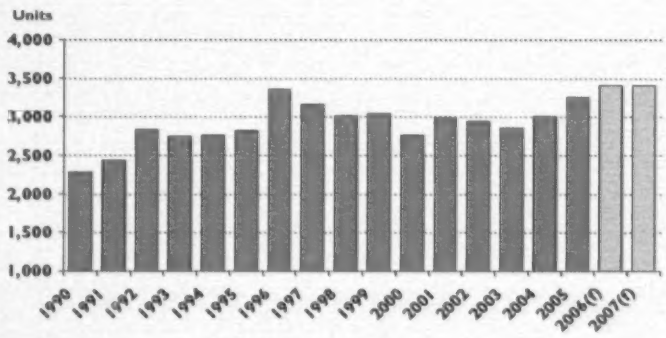
CMHC forecasts an average vacancy rate of 5.0 per cent in the October 2006 survey, representing among the highest level of vacancies among Canadian CMAs. Expect vacancies to decline modestly to 4.8 per cent in October 2007. Employment and earning gains will attract in-migration and household growth in 2006 and 2007, putting downward pressure on the average vacancy rate. The escalation in housing prices in Alberta will also discourage some potential out-migrants from seeking opportunities there.

Countering these positive demand factors will be the continued popularity of homeownership versus rental housing despite rising new and resale housing prices in Saskatoon. Furthermore, we expect the reintroduction of rental projects that were under renovation in the previous survey leading to more supply and thus upward pressure on average vacancy.

Modest potential for rent increases in 2006 and 2007

Although the Saskatoon rental market is highly competitive due to a plentiful supply of rental property, there is some potential for rent gains in 2006 and 2007. Operating and maintenance costs are increasing for all types of rental housing, providing some upside pressure to rents. However, the ability to obtain rent increases and the level of rent increases will depend on both the household income in the area of the city where the project is located and the condition of the property.

Figure 2
MLS® Annual Sales



Source: CREA, CMHC Forecast

Economic Outlook

Employment growth slow in 2006 and moderate in 2007

Saskatoon housing demand continues to benefit from the robust employment growth in 2005, when 5,300 new jobs were created. In 2006, employers have taken a breather with

minimal employment gains recorded to-date. As such, CMHC is forecasting a modest increase in employment in 2007 of 1,000 new positions.

Part of the reason for the limited growth in employment is the restricted potential for growth in the labour force. The labour force participation rate has recently returned to the historical high of 70.5 per cent and in-migration, though positive, is only marginal. Limited growth of the labour force and a high participation rate will hold the unemployment rate down in the forecast period and serve to inhibit job growth moving forward.

So far in 2006, employment growth has been seen in construction on the goods sector side while the service sector has witnessed gains in Transportation and Warehousing, Management Support and Professional, Scientific and Technical Services.

The construction sector has been particularly robust, buoyed by construction projects at the University of Saskatchewan, various city infrastructure projects as well as residential projects. University projects already started or to be started in 2007 and beyond are valued at close to half a billion dollars.

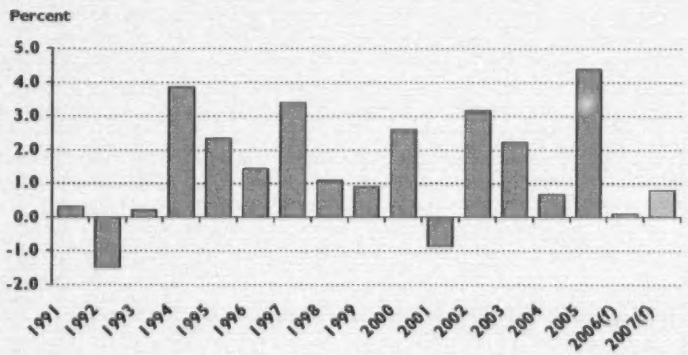
Mortgage rates have peaked

A combination of a slowing economy, strong Canadian dollar vis-à-vis the U.S. dollar, and moderate inflation will help keep Canadian interest and mortgage rates low over the remainder of this year and in 2007.

Mortgage rates rose by 1.0-1.5 percentage point between September 2005 and September 2006. Mortgage rates are expected to remain low, easing by 25-75 basis points over the next two-three quarters before starting to climb higher. One, three and five-year posted mortgage rates are forecast to be in the 5.50-6.50, 5.75-6.75, and 6.00-7.00 per cent ranges respectively over the rest of this year and in 2007.

Figure 3

Employment Growth



Source: Statistics Canada, CMHC Forecast

CMHC FORECAST SUMMARY

Saskatoon Census Metropolitan Area
Fall 2006

	2004	2005	%Chg	2006(f)	%Chg	2007(f)	%Chg
RESALE MARKET							
MLS®(1) new listings (Monthly Avg.)	2,999	3,246	8.2%	3,400	4.7%	3,400	0.0%
Total MLS® Sales	4,695	4,908	4.5%	4,800	-2.2%	4,960	3.3%
Average MLS® Price	$132,549	$144,787	9.2%	$158,000	9.1%	$169,500	7.3%
NEW HOME MARKET							
Starts							
Total	1,578	1,062	-32.7%	1,550	46.0%	1,450	-6.5%
Single-detached	753	751	-0.3%	850	13.2%	750	-11.8%
Multiple-detached	825	311	-62.3%	700	125.1%	700	0.0%
Average New House Price							
Single-family	$199,877	$213,464	6.8%	$235,000	10.1%	$246,500	4.9%
RENTAL MARKET							
Vacancy rate (Oct) -Per cent	6.3%	4.6%		5.0%		4.8%	
2-bedroom Rent (Annual Per Cent Chg)	$531	$536	0.9%	$542	1.1%	$550	1.5%
ECONOMIC OVERVIEW							
Mortgage rate (1 yr term)	4.59	5.06		6.27		6.0 - 6.25	
Mortgage rate (5 yr term)	6.23	5.99		6.67		6.25 - 6.75	
Annual Employment Level	121,100	126,400	4.4%	126,500	0.1%	127,500	0.8%
Employment growth (# jobs)	800	5,300		100		1,000	
Unemployment Rate (%)	6.2%	5.0%		5.0%		4.8%	
Net-migration (Census Year)	489	517		500		500	

Source: CMHC, Statistics Canada, Canadian Real Estate Association and the New Home Warranty of Saskatchewan, CMHC Forecast

1 Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.

CMHC – HOME TO CANADIANS

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